

A grant to a city transit authority for the purpose of maintaining a mass transportation system qualifies as a charitable disbursement in furtherance of an organization's exempt purposes.

An organization formed exclusively for charitable purposes and exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 has asked the Internal Revenue Service whether a grant to a city transit authority under the circumstances described below qualifies as a charitable disbursement in furtherance of the organization's exempt purposes.

The city is currently served by a privately owned bus company that has been operating at a deficit and is unwilling to sustain any further financial loss. A recent study by the city transit authority established that, at the level of service required by the city to meet the transportation needs of its population, public bus transportation will not sustain itself economically. For this reason the city has entered into a conditional agreement to take over the bus company from the present owner, and has applied for Federal assistance in acquiring the necessary equipment. Because the bus company is unwilling to continue operating at a loss, however, there is the possibility that there will be no bus transportation until the city has obtained the necessary funds to begin its operations. Therefore, the exempt organization proposes to supply the city transit authority with a grant in order to enable it to induce the present bus company to continue operating during the interim by reimbursing any losses it might sustain.

Revenue Ruling 62-78, C.B. 1962-1, 86, holds that an organization exempt from Federal income tax under section 501(c)(3) of the Code may properly make distributions of income to a state or a municipality provided such funds are to be used to carry out purposes described in section 501(c)(3) of the Code.

Section 1.1501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term 'charitable' is used in section 501(c)(3) in its generally accepted legal sense and includes, among other things, the erection or maintenance of public buildings, monuments, or works, and the lessening of the burdens of Government. In the general law of charity, certain purposes beneficial to the community as a whole have been deemed charitable. See for example Revenue Ruling 67-325, C.B. 1967-2, 113, in regard to community recreation facilities. The charitable element in facilitating public transportation is established in the Statute of Charitable Uses, 43 Eliz. I, c.4 (1601), which recognized as charitable the 'repair of bridges, ports, havens, causeways . . . and highways'.

By providing the city transit authority with the funds necessary to insure that bus service for the city is continued, the organization is assisting the municipal government and

conferring a benefit upon the entire community. Accordingly, it is held that the grant to the city transit authority under the circumstances described qualifies as a charitable disbursement in furtherance of the organization's exempt purposes.